

Marginal Effective Tax Rates Across Provinces: High Rates on Low Income

by Philip Bazel

An examination of effective tax rates at the margin across the provinces shows something striking: individuals and families earning relatively modest income are the ones who face the highest marginal effective tax rates (METRs). For families with incomes between \$30,000 and \$60,000, METR averages are near to or exceed 50 percent; in Quebec, the METR is 53 percent for a representative family with combined income in this range. This is concerning from a policy perspective given how the tax and transfer system alters the incentives for individuals and families to seek out productive, income-generating opportunities. Currently METRs across provinces offer very low net-of-tax returns to earnings in the low to middle income range, discouraging the earning of additional income which is traded off against reduced transfer benefits.

Often discussions about the personal income tax system in Canada focus on statutory tax rates—the progressively tired system by which incremental income is taxed at increasingly higher rates. However, in assessing the overall impact of the tax-and-transfer system on individuals and families, it is effective tax rates at the margin that account for the combined effect of the tax-and-transfer system and illustrate the real net-of-tax returns to earned income. In comparison to statutory rates, METRs convey the impact of transfers on individuals and families, the effect of reductions to income-tested transfers as earnings increases, and the net result of the complex interaction between earnings, transfer programs, tax credits, and taxation of income.

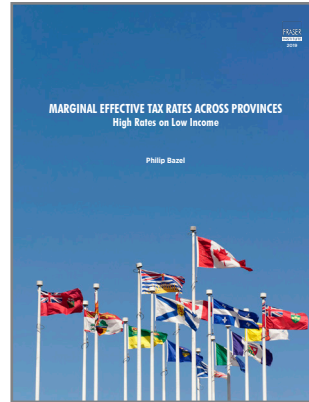
This study provides a primer on interpreting METRs; it also gives measurements for the current set of METRs for

working-age, two-earner families across provinces. It offers some background on the concerns associated with high

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marginal effective tax rates and concludes by looking at some proposals to reduce the negative impacts associated with high METRs.

The intention of this study is three-fold. First, to provide a survey of current METRs across provinces as a reference point for tax policy analysis and discussion in Canada. Second, to provide some background on the interpretation of METR figures and give an overview of some of the tax and transfer programs that determine their shape. And third, to highlight the fact that a survey of METRs in Canada leads to the troubling conclusion that individuals and families with relatively modest incomes are facing extremely burdensome effective tax rates—often higher than those earning in the top income brackets—and this is undoubtedly diminishing incentives to seek additional income and, by extension, is likely creating barriers to upward mobility.



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Marginal Effective Tax Rates in Alberta for a Two-Earner Family with Two Children

